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4/24

THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

**Date Issued:** April 5, 2007

**IBA Report Number:** 07-40

**City Council Agenda Date:** April 9, 2007, Special 9:00 a.m. Council Meeting

**Item Number:** 603

**Item:** Discussion and Proposed Adoption of: 1) the Permanent Rules of Council to Establish an Audit Committee, 2) an Audit Committee Charter, and 3) a Statement of Operating Principles with the Mayor

Background

On January 9<sup>th</sup>, the City organization and this Council achieved a major milestone when it created the City's first independent Audit Committee made up of members of the legislative body as recommended by GFOA and numerous other professional organizations. The Audit Committee has already held five meetings and taken quick action holding the first public discussions with officers of KPMG to successfully accelerate completion of the City's 2003 financial audits.

At their meeting of February 26<sup>th</sup>, the Audit Committee reviewed and approved, to forward to City Council, its Permanent Rules and Charter. Stan Keller, the City's Independent Consultant took the lead in working with the Audit Committee Chair, the City Attorney, the Mayor's Office, the CFO and the IBA to develop these guidelines for the new Audit Committee.

The Independent Consultant also worked with the Mayor and others noted above to develop a Statement of Operating Principles to direct City Auditor activities with the Audit Committee, in accordance with the City Charter, during the interim period until the Charter can be revised. Article XV, Section 265(b)(10) of the existing Charter provides the Mayor with "sole authority to appoint the City Auditor and Controller, subject to Council confirmation." According to the City Attorney, this appointment authority infers a reporting relationship of the Auditor to the Mayor. It is important to note that this reporting relationship, while required by Charter, does not meet the test of Auditor independence from management who is responsible for the City's day-to-day financial operations.

Throughout discussions and meetings over the last several months relative to both the Audit Committee and the role of the Auditor, the IBA has strongly advocated for independence from management of both of these important entities which form the City's



“Audit Organization.” In the strong mayor form of government, the Mayor and his team are management. This independence from management is recommended by numerous reputable advisory organizations, including the Government Finance Officers Association, the Association of Local Government Auditors and the American Institute of Certified Public Accountants, as well as the State of California Government Code, the SEC and the General Accounting Office. As indicated earlier, an independent Audit Committee, made up of three members of the legislative branch, was established by Council Resolutions R-302279, R-302280, and R-302281 on January 9, 2007 and has been successfully implemented.

However, to achieve increased independence of the Auditor, the City Attorney has opined that City Charter revisions are necessary to change the existing appointment and reporting structure which currently resides with the Mayor. The earliest that amendments to the City Charter can be considered is February or June of 2008.

#### Proposed Dual Reporting Model for Interim Period

Until the necessary Charter changes can be achieved, the proposed Mayor’s Statement of Operating Principles is intended to provide interim guidelines for the Auditor’s activities and reporting responsibilities that comply with the Charter. The Independent Consultant has represented to the Audit Committee that the Mayor’s Statement of Operating Principles (SOP) is intended to provide for a dual reporting model. In a March 29 memorandum to the Audit Committee, Mr. Keller defined this model as follows: “The Internal Auditor is part of management for administrative purposes, but has a direct communication line to the Audit Committee.”

While, this “dual reporting model” is not spelled out as such in the Statement of Operating Principles or the Charter, Mr. Keller has indicated that the following language in Section 1 of the SOP accomplishes this: “The Auditor . . . is directed periodically and more frequently as necessary to communicate directly to and consult with the Audit Committee and to be responsive to its requests for information consistent with the Audit Committee’s oversight responsibilities.”

This dual reporting model is critical for the City, the Auditor and the Audit Committee, during the interim period in order to provide a minimal level of independence from management. How this reporting model is put into practice will determine its effectiveness.

Proposed Independence Protections for Interim Period

Key language in the proposed documents, that helps to facilitate a working relationship between the Auditor and the Audit Committee and provides a minimal level of independence for the Auditor during the interim period, includes the following:

“The Auditor shall have the responsibility to inform the Audit Committee if he believes his independence is being compromised.” (Mayor’s SOP, Item 1)

Both the Mayor and the Audit Committee will provide input to the Auditor’s Annual Audit Work Plan. “The Auditor shall resolve any differences through the exercise of his independent professional judgment.” (Mayor’s SOP, Item 3)

“The Mayor shall select as the Auditor, with participation of the Audit Committee, a person with professional qualifications as an internal auditor.” (Mayor’s SOP, Item 5) (However, “participation” is not defined.)

“The Auditor may be dismissed by the Mayor subject only to a right to appeal to the Audit Committee to overturn the Mayor’s decision.” (However, it is not clear how this would work in practice.) (Mayor’s SOP, Item 6)

The Mayor shall consult with the Audit Committee regarding Auditor compensation, performance and budget. (Mayor’s SOP, Item 7)

The Committee “may meet with the internal auditor outside the presence of the Mayor to discuss the internal financial audit.” (Charter, p.3)

Discussion of Audit Committee Oversight Responsibilities During Interim Period

Relative to the definition in the documents of the oversight role of the Audit Committee, and the focus of the Auditor’s work for the interim period, you will note frequent references to “financial audits” and “financial reporting” throughout the Rules, Charter and SOP. This language, which does not specifically spell out performance audits, compliance audits or internal auditing in general, is language recommended by the Independent Consultant, to recognize financial audits/reporting as a top priority, for the interim period prior to a February or June 2008 election.

The IBA has strongly advocated for the Audit Committee to have oversight responsibility for internal auditing and for reestablishment of the City’s internal auditing function. We identified the latter as an issue of concern in IBA Report No. 07-18, entitled “Second Annual Report on Internal Controls,” dated January 25, 2007. This concern was reiterated in IBA Reports No. 07-35, “Internal Audit Division” and No. 07-37, “Internal

Auditor Recruitment.” Financial auditing and performance auditing are both critical, and should not be seen as mutually exclusive. That being said, all audit work - including compliance; performance; procurement; and internal auditing; or auditing for fraud, waste and abuse-potentially impacts the City’s financial condition. The Audit Committee should not feel limited with respect to their oversight responsibilities to only financial audits and financial reporting. In fact, it is the Committee’s fiduciary duty to inquire into any such matters that could put the City in a position of risk.

While the financial audits are clearly a top priority, there will be circumstances where the Committee will provide an important role in the oversight of performance auditing as well during this time. For instance, the CFO recently announced the appointment of Kyle Elser as Acting Internal Auditor. Mr. Elser’s first task, according to the CFO, will be to undertake a risk assessment for the City and prioritize and determine those areas that require immediate attention. These resulting audit priorities, whether financial or performance audits, should be brought to the attention of the Audit Committee as discussed at their March 26th meeting. The Mayor has also charged the new Independent Rate Oversight Committee (IROC) with reviewing “independent performance audits on Water and Wastewater systems.” This work should also be coordinated with the Audit Committee and the results of these performance audits should be presented to the Committee per the Council’s motion to this effect on March 20<sup>th</sup> when they approved the formation of IROC.

### Recommendation

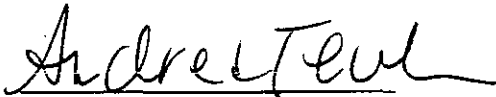
The independent consultant has recommended adoption of the language proposed in the draft SOP, Charter and Permanent Rules for the interim period. Based on this recommendation, on February 26<sup>th</sup> the Audit Committee acted to forward these documents to the full Council without changes. At this Committee meeting, the IBA verbally expressed two concerns with the proposed language as outlined in this report:

- The lack of specificity regarding the dual reporting model, which provides for the Auditor to report to the Mayor as required by the Charter, and to report to the Audit Committee as well, and the lack of clarity as to how this will function on a day-to-day basis. This is likely difficult to define and will need to be addressed on a practical level.
- Potential for the language to be perceived as or interpreted as limiting the Audit Committee’s oversight responsibilities to financial audits and financial reporting, rather than all internal auditing. As discussed earlier, the Committee has a fiduciary responsibility to inquire into any such matters that could put the City at risk. The Audit Committee will provide an important oversight role over the next several months for audits identified as a priority in the new Internal

Auditor's risk assessment and workplan; the performance audits reviewed by the Independent Rates Oversight Committee; audits completed by Myer Hoffman and McCann (MHM), such as for park and recreation sites.

The IBA recognizes the progress that has been made in the past two months and the importance of putting guidelines into place so that the Audit Committee can move forward with the full breadth of its legislative responsibilities, including the development of appropriate revisions to the City Charter for the 2008 ballot. As such, these documents are adequate for the interim period only. Our office looks forward to working with the Mayor's Charter Commission and the Audit Committee on developing Charter revisions that achieve Auditor independence from management for the long term.

The IBA recommends Council **adoption** of the proposed ordinance, which codifies the **Audit Committee's Charter and Permanent Rules**. We recommend **acceptance only** of the **Statement of Operating Principles with the Mayor**, rather than its adoption by ordinance. The SOP is a statement of intent that establishes a protocol for the working relationships of the Mayor, the City Council, the Audit Committee and the Internal Auditor, that is adequate for the interim period, but should not be codified in municipal law.



Andrea Tevlin

Independent Budget Analyst

## STATEMENT OF OPERATING PRINCIPLES

(Originally received by the Audit Committee on February 26, 2007, as revised on April 10, 2007)

WHEREAS the City Charter provides for an Auditor and Comptroller to perform those functions related to the City's fiscal affairs specified in the City Charter;

WHEREAS the Auditor and Comptroller is to perform those functions under the direction of the Mayor except as otherwise specified in the existing City Charter;

WHEREAS the Mayor believes that it is important for the financial integrity of the City for the Auditor and Comptroller, consistent with his responsibilities under the existing City Charter, to perform the internal audit function on an independent basis working not only with the Mayor's Office, but also with the Audit Committee recently established by the City Council to provide independent oversight over financial matters (the Auditor and Comptroller or his designee with responsibility over the internal audit function is referred to herein as the "Internal Auditor");

Deleted: Auditor

WHEREAS this Statement of Operating Principles shall apply during the interim period prior to revision of the City Charter (the "Interim Period");

Accordingly, the Mayor hereby sets forth the following operating principles:

1. The Internal Auditor, in the exercise of his internal audit function, is directed periodically and more frequently as necessary to communicate directly to and consult with the Audit Committee and to be responsive to its requests for information consistent with the Audit Committee's oversight responsibilities with respect to the internal audit function. Such communication shall take place at the initiative of the Internal Auditor or of the Audit Committee. The Internal Auditor shall have the responsibility to inform the Audit Committee if he believes his independence is being compromised.

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2. During the Interim Period, the Internal Auditor's internal audit function shall focus on financial reporting, completion of the City's CAFRs for fiscal years 2004 through 2007, and the City's internal controls over financial reporting.

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3. The Internal Auditor shall prepare an Annual Audit Work Plan consistent with the foregoing paragraph as part of the internal audit function after consultation with and taking into account the recommendations of the Mayor and the Audit Committee, including prioritization of the workload according to available resources and budget. The Internal Auditor shall resolve any differences through the exercise of his independent professional judgment.

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4. The Internal Auditor may consult as appropriate with the City Council or its designees, such as the Independent Budget Analyst, or the City Attorney.

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5. The Mayor shall direct the Auditor and Comptroller to select as the Internal Auditor, with the participation of the Audit Committee, a person with professional qualifications as an internal auditor.

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6. To the extent that the Internal Auditor is not the Auditor and Comptroller as described in Section 39 of the City Charter, the Internal Auditor may be dismissed by the Auditor and Comptroller, subject to a right to appeal to the Audit Committee to overturn the dismissal decision.

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7. The Auditor and Comptroller, in consultation with the Audit Committee, shall evaluate the performance of the Internal Auditor and shall consult with the Audit Committee with respect to the budget and compensation of the Internal Auditor.

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APPROVED: JERRY SANDERS, Mayor

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OFFICE OF MAYOR JERRY SANDERS  
CITY OF SAN DIEGO

MEMORANDUM

DATE : April 6, 2007

TO : Honorable Council President Peters  
Honorable Members of the City Council

FROM : Mayor Jerry Sanders *[Signature: Jerry Sanders]*

SUBJECT: Comments Regarding Item 603 -- Actions Related to the Duties and Responsibilities of the Audit Committee

As stated in my August 24, 2006 response to the Kroll Report, I support the separation of duties and the establishment of an Independent Internal Auditor. I also support the formation of an Independent Audit Committee comprised of an elected official and appointed professionals with specific expertise. Neither Kroll recommendation could be implemented at this time given the City's Charter.

The executive and legislative branches have agreed the interim internal auditor is appointed by the Mayor, reports to Mayor and communicates on a regular basis with the Audit Committee. This defines the "dual reporting" role during this period. These are provisions in the documents that foster independence and I agree with these concepts; most importantly, the City must operate consistently with the Charter language which provided the Mayor the ability to appoint the auditor and the auditor report to the Mayor (Article XV sec. 265(b)(10)). I have agreed to encourage the interim internal auditor to communicate on a regular basis with the Audit Committee and to bring to the committee any issue which he feels compromises his independence.

The interim internal auditor will report to me or my designee. If support is needed on technical or operational issues, this person will seek his necessary resources from management. As the interim internal auditor develops the risk assessment, the results will be shared and discussed with the Audit Committee as will the results of any audits completed.



Item 603 – Actions Related to the Duties and Responsibilities of the Audit Committee  
Mayor Jerry Sanders  
April 6, 2007  
Page 2

Further, the interim internal auditor is limited to financial audits. There is no more important priority of the City than to complete the remaining CAFRs and the City's resources will be focused on that task. This does not mean that the interim internal auditor and his staff will actually be preparing financial statements and CAFR schedules, but rather reviewing the various internal controls that are in place that affect the accuracy of the CAFR and where there are weaknesses or concerns develop recommendations to strengthen systems. I did not create the problem of delayed CAFRs that keep the city out of the bond market; however, I am committed to fixing the problem and therefore the interim internal auditor is limited to financial audits and internal controls.

There has been widespread acknowledgement that the City's internal controls need significant improvements, and I have been addressing those concerns. As part of the implementation of the Kroll recommendations, staff and outside consultants have been working on establishing the kinds of controls that will provide the City's independent auditors with the assurances they need to efficiently and timely complete their audits of the City's financial statements.

Again, the Audit Committee Charter and Permanent Rules, as well as my Statement of Operating Principles represent a balanced response to the limitations in the Charter as well as the areas of highest priority for the City. These documents are the results of compromises that serve the City's interests before Charter changes can be completed. As the Charter Reform Committee examines this issue, a more permanent structure can and will be developed.

Finally, the Statement of Operating Principle should not be adopted by ordinance as these are principles for informational purposes. It was not my recommendation or suggestion that the City Attorney prepare this Ordinance and would support the City Council accepting my Operating Principles without it.

JERRY SANDERS  
Mayor

cc: Michael Aguirre, City Attorney  
Ronnie Froman, Chief Operating Officer  
Jay Goldstone, Chief Financial Officer  
Kyle Elser, Interim Internal Auditor  
Stanley Keller, Independent Oversight Monitor  
Andrea Tevlin, IBA

## STATEMENT OF OPERATING PRINCIPLES

WHEREAS the City Charter provides for an Auditor and Comptroller to perform those functions related to the City's fiscal affairs specified in the City Charter;

WHEREAS the Auditor and Comptroller is to perform those functions under the direction of the Mayor except as otherwise specified in the existing City Charter;

WHEREAS the Mayor believes that it is important for the financial integrity of the City for the Auditor and Comptroller, consistent with his responsibilities under the existing City Charter, to perform the internal audit function on an independent basis working not only with the Mayor's Office, but also with the Audit Committee recently established by the City Council to provide independent oversight over financial matters (the Auditor and Comptroller or his designee with responsibility over the internal audit function is referred to herein as the "Auditor");

WHEREAS this Statement of Operating Principles shall apply during the interim period prior to revision of the City Charter (the "Interim Period");

Accordingly, the Mayor hereby sets forth the following operating principles:

1. The Auditor, in the exercise of his internal audit function, is directed periodically and more frequently as necessary to communicate directly to and consult with the Audit Committee and to be responsive to its requests for information consistent with the Audit Committee's oversight responsibilities with respect to the internal audit function. Such communication shall take place at the initiative of the Auditor or of the Audit Committee. The Auditor shall have the responsibility to inform the Audit Committee if he believes his independence is being compromised.
2. During the Interim Period, the Auditor's internal audit function shall focus on financial reporting, completion of the City's CAFRs for fiscal years 2003 through 2007, and the City's internal controls over financial reporting.
3. The Auditor shall prepare an Annual Audit Work Plan consistent with the foregoing paragraph as part of the internal audit function after consultation with and taking into account the recommendations of the Mayor and the Audit Committee, including prioritization of the workload according to available resources and budget. The Auditor shall resolve any differences through the exercise of his independent professional judgment.
4. The Auditor may consult as appropriate with the City Council or its designees, such as the Independent Budget Analyst, or the City Attorney.
5. The Mayor shall select as the Auditor, with the participation of the Audit Committee, a person with professional qualifications as an internal auditor.
6. To the extent that the Auditor is not the Auditor and Comptroller as described in Section 39 of the City Charter, the Auditor may be dismissed by the Mayor subject only to a right to appeal to the Audit Committee to overturn the Mayor's decision.

**000164**

7. The Mayor, in consultation with the Audit Committee, shall evaluate the performance of the Auditor and shall consult with the Audit Committee with respect to the budget and compensation of the Auditor.

APPROVED: JERRY SANDERS, Mayor

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AUDIT FEB 26 2007 #3

**City of San Diego  
Audit Committee Charter**

**Purpose**

The purpose of the Audit Committee (the "Committee") of the City Council (the "Council") of the City of San Diego (the "City") is to:

- Provide independent, legislative oversight of the City's accounting and financial reporting processes, financial internal controls, internal financial audit function and audits of the City's financial statements;
- Assist the Council in performing its legislative oversight function in those areas;
- Review the financial reports and other financial information provided by the City, the City's disclosure controls and procedures, and its internal financial controls;
- Consider the reports of and interact with the City's internal auditor in connection with the internal auditor's performance of an independent internal financial audit function;
- Assume direct responsibility, with appropriate consultation with the Mayor or his designee (the "Mayor"), for the appointment, compensation, retention and where appropriate, replacement of the outside auditor to the City in preparing or issuing an audit report or related work;
- Oversee the work and independence of the outside auditor, approve all auditing services and permitted non-audit services provided by the outside auditor, and resolve any disagreements between the Mayor and the outside auditor regarding financial reporting; and
- Carry out the specific responsibilities set forth below in furtherance of this stated purpose.

**Committee Membership and Procedures**

Committee members shall be appointed in accordance with the Council Procedures.

The Committee shall be comprised of three voting Council members. The terms of the members, whenever possible, shall be arranged to ensure that there is always at least one experienced member of the Committee.

The Committee shall meet periodically as it determines. It shall conduct its meetings in accordance with this Charter, the procedures of the Council, the requirements of California law and such other lawful procedures as the Committee may adopt. The Committee may, consistent with California law, meet in executive session when determined necessary, including for personnel matters.

**Resources**

The Committee shall be advised, from time-to-time, by an ad hoc advisory committee, created and established only for the purpose of advising on questions with clearly defined objectives, and shall be temporary in nature, and shall be dissolved upon the completion of the objectives for which the advisory committee was created. The advisory committee shall consist of three members, one member who shall be appointed by the Mayor, and two members who shall be appointed by the Committee. The advisory committee members shall be citizens selected for their accounting or audit expertise or financial management expertise. Each of the members shall serve without compensation.

*Internal Auditing.* The Committee shall, in a manner consistent with paragraph 2 of the Statement of Operating Principles issued by the Mayor, make recommendations, along with the City Council, the Mayor, and the City Attorney, for matters to be included in the Annual Audit Work Plan developed by the internal auditor as part of the internal audit function, recognizing the need to prioritize workload according to available resources, budget and critical needs. The Committee shall review and comment on the Annual Audit Work Plan and monitor its progress on at least a quarterly basis. The Committee shall review the results of internal financial audits and monitor the follow-up on recommendations. Consistent with the requirements of the City Charter and California law, the Committee may meet with the internal auditor outside the presence of the Mayor to discuss the internal financial audit.

*Accounting Policies.* The Committee shall review periodically with the Mayor and the outside auditor the quality, as well as acceptability, of the City's accounting policies, and discuss with the outside auditor how the City's accounting policies compare with those in the municipal sector and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Mayor, the ramifications of use of such alternative disclosures and treatments and the treatment preferred by the outside auditor.

*Pre-approval of All Audit Services and Permitted Non-Audit Services.* The Committee shall approve, or establish procedures for representatives of the Committee to approve, in advance, all audit services and all permitted non-audit services to be provided to the City by the outside auditor in order to ensure the outside auditor's independence.

*Annual Audit.* In connection with the annual audit of the City's financial statements, the Committee shall:

- request from the outside auditor a formal written statement delineating all relationships between the outside auditor and the City consistent with Independence Standards Board Standard No. 1 and any other applicable auditing requirements, discuss with the outside auditor any such disclosed relationships and their impact on the outside auditor's objectivity and independence, and take appropriate action to oversee the independence of the outside auditor.
- approve, after appropriate consultation with the Mayor, the selection and the terms of the engagement of the outside auditor.
- review with the Mayor and the outside auditor the audited financial statements to be included in the City's Comprehensive Annual Financial Report, and provide to the Mayor any comments or recommendations it may have, and review and consider with the outside auditor the matters required to be discussed by Statement on Auditing Standards No. 61.
- perform the procedures set forth below in "*Financial Reporting Procedures*" with respect to the annual financial statements to be reported.
- review with the Mayor and the outside auditor the City's critical accounting policies and practices.
- recommend to the Council whether, based on the reviews and discussions referred to above, the annual financial statements should be issued by the City.

*Continuing Reporting.* In connection with the City's preparation of its continuing reporting of financial information, the Committee shall:

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REQUEST FOR COUNCIL ACTION  
CITY OF SAN DIEGO1. CERTIFICATE NUMBER  
(FOR AUDITOR'S USE ONLY)

54

4/24

TO:  
City Attorney2. FROM (ORIGINATING DEPARTMENT):  
Councilmember Faulconer3. DATE:  
3/14/07

## 4. SUBJECT:

Actions Related to the Duties and Responsibilities of the Audit Committee

5. PRIMARY CONTACT (NAME, PHONE &amp; MAIL STA.)

Steve McNally 235-5281 MS10A

6. SECONDARY CONTACT (NAME, PHONE &amp; MAIL STA.)

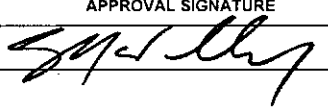
Matt Awbrey, 236-6992, MS10A

7. CHECK BOX IF REPORT TO  
COUNCIL IS ATTACHED ☒

## 8. COMPLETE FOR ACCOUNTING PURPOSES

FUND					9. ADDITIONAL INFORMATION / ESTIMATED COST:
DEPT.					
ORGANIZATION					
OBJECT ACCOUNT					
JOB ORDER					
C.I.P. NUMBER					
AMOUNT					

## 10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT			8	DEPUTY CHIEF		
2				9	COO		
3				10	CITY ATTORNEY		
4	LIAISON OFFICE			11	ORIGINATING DEPARTMENT		
5				<div>DOCKET COORD: _____ COUNCIL LIAISON: _____</div> <div><input checked="" type="checkbox"/> COUNCIL PRESIDENT <input type="checkbox"/> SPOB <input type="checkbox"/> CONSENT <input checked="" type="checkbox"/> ADOPTION <i>Sp. Meeting</i></div> <div><input type="checkbox"/> REFER TO: _____ COUNCIL DATE: <i>4/9/07</i></div>			
6							
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11. PREPARATION OF:

☐ RESOLUTION(S)☒ ORDINANCE(S)☐ AGREEMENT(S)☐ DEED(S)

Please prepare an amended Ordinance for the new Permanent Rules of the Audit Committee to reflect the changes made by the Committee (see the attached minutes for Item 2) Ordinance for Council approval that adds to the Municipal Code the Audit Committee's Statement of Operating Principles with the Mayor and the Audit Committee's Charter, both approved by the Audit Committee on 2/26/07.

Please docket for an upcoming City Council meeting ~~no later than March 27, 2007, in order to meet the 90-day~~

11A. STAFF RECOMMENDATIONS:

Approve the recommended actions.

12. SPECIAL CONDITIONS:

COUNCIL DISTRICT(S):COMMUNITY AREA(S):ENVIRONMENTAL IMPACT:HOUSING IMPACT:OTHER ISSUES:

000168

REQUEST FOR COUNCIL ACTION  
CITY OF SAN DIEGO1. CERTIFICATE NUMBER  
(FOR AUDITOR'S USE ONLY)TO:  
City Attorney2. FROM (ORIGINATING DEPARTMENT):  
Councilmember Faulconer3. DATE:  
3/14/07

## 4. SUBJECT:

Actions Related to the Duties and Responsibilities of the Audit Committee

5. PRIMARY CONTACT (NAME, PHONE &amp; MAIL STA.)

Steve McNally 235-5281 MS10A

6. SECONDARY CONTACT (NAME, PHONE &amp; MAIL STA.)

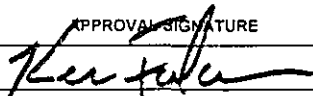
Matt Awbrey, 236-6992, MS10A

7. CHECK BOX IF REPORT TO  
COUNCIL IS ATTACHED ☒

## 8. COMPLETE FOR ACCOUNTING PURPOSES

FUND					9. ADDITIONAL INFORMATION / ESTIMATED COST:		
DEPT.							
ORGANIZATION							
OBJECT ACCOUNT							
JOB ORDER							
C.I.P. NUMBER							
AMOUNT							

## 10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT			8	DEPUTY CHIEF		
2				9	COO		
3				10	CITY ATTORNEY		
4	LIAISON OFFICE			11	ORIGINATING DEPARTMENT		
5				<div>DOCKET COORD: _____ COUNCIL LIAISON: _____</div> <div><input checked="" type="checkbox"/> COUNCIL PRESIDENT <input type="checkbox"/> SPOB <input type="checkbox"/> CONSENT <input checked="" type="checkbox"/> ADOPTION <i>S.p. m...</i></div> <div><input type="checkbox"/> REFER TO: _____ COUNCIL DATE: <i>4/9/07</i></div>			
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7							

## 11. PREPARATION OF:

☐ RESOLUTION(S)☒ ORDINANCE(S)☐ AGREEMENT(S)☐ DEED(S)

Please prepare an Ordinance adding to the Municipal Code the Audit Committee's Statement of Operating Principles and an Ordinance approving the Audit Committee's Charter, both approved by the Audit Committee on 2/26/07.

Please docket for an upcoming City Council meeting no later than March 27, 2007, in order to meet the 90-day deadline for City Council approval

## 11A. STAFF RECOMMENDATIONS:

Approve the recommended actions.

## 12. SPECIAL CONDITIONS:

COUNCIL DISTRICT(S):COMMUNITY AREA(S):ENVIRONMENTAL IMPACT:HOUSING IMPACT:OTHER ISSUES:

000169

**EXECUTIVE SUMMARY SHEET**  
CITY OF SAN DIEGO

DATE ISSUED: 3/28/07 REPORT NO:  
ATTENTION: City Attorney  
ORIGINATING DEPARTMENT: Council District 2  
SUBJECT: Actions Related to the Duties and Responsibilities of the  
Audit Committee  
COUNCIL DISTRICT(S):  
CONTACT/PHONE NUMBER: Matt Awbrey/236-6992 or Steve McNally/235-5281

REQUESTED ACTION:

Take the following actions:

Adopt the ordinance amending the Permanent Rules of the City Council as approved by the Audit Committee (3-0) on 2/26/07.

Direct the City Attorney's office to prepare an ordinance which adds the the Audit Committee's Charter and the Statement of Operating Principles with the Mayor to the Municipal Code, as approved by the Audit Committee (3-0) on 2/26/07.

INDEPENDENT CONSULTANT'S RECOMMENDATION:

Approve the recommended actions.

EXECUTIVE SUMMARY:

On January 9, 2007, the City Council approved a resolution adopting temporary rules to establish the Audit Committee. This resolution created the Audit Committee as the Council's sixth standing committee, as reflected in the amended Rule 6.1 ("Creation of Standing Committees") and the new Rule 6.11.6 ("Audit Committee"). Since that time, the Audit Committee has met under these temporary rules. Also, the resolution required that the Audit Committee develop and recommend a Charter containing the duties and responsibilities of the Committee for approval by the City Council within 90 days.

The new permanent rules, the Charter, and the Statement of Operating Principles with the Mayor were drafted by the City's Independent Consultant with the collaboration of the Audit Committee, the Mayor, the City Attorney, and the IBA. The Audit Committee unanimously approved these three items on February 26, 2007.

The requested actions before the City Council are to amend Rule 6.11.6 to reflect the new permanent rules of the Audit Committee and approve the Audit Committee's Charter and Statement of Operating Principles with the Mayor. The Charter outlines the Audit Committee's purpose, membership, resources, procedures, and responsibilities. The Statement of Operating Principles with the Mayor primarily addresses the relationship the internal auditor will have with the Audit Committee during the interim period prior to revision of the City Charter. As outlined in the Statement, the internal auditor shall be selected by the Mayor with the participation of the Audit Committee. The internal auditor is directed to communicate with the Audit Committee



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insofar as it relates to the Committee's oversight responsibilities with respect to the internal audit function. The internal auditor shall also have the responsibility to inform the Audit Committee if he or she believes his or her independence is being compromised.

FISCAL CONSIDERATIONS:

These actions will have no fiscal impact.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The City Council adopted temporary rules to establish the Audit Committee on January 9, 2007.

The Audit Committee voted unanimously to approve the Audit Committee's Permanent Rules, Charter, and Statement of Operating Principles with the Mayor on February 26, 2007.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

KEY STAKEHOLDERS AND PROJECTED IMPACTS:



Councilmember Faulconer  
Originating Department

Deputy Chief/Chief Operating Officer

**STATEMENT OF OPERATING PRINCIPLES**

(Originally received by the Audit Committee on February 26, 2007, as revised on April 10, 2007)

WHEREAS the City Charter provides for an Auditor and Comptroller to perform those functions related to the City's fiscal affairs specified in the City Charter;

WHEREAS the Auditor and Comptroller is to perform those functions under the direction of the Mayor except as otherwise specified in the existing City Charter;

WHEREAS the Mayor believes that it is important for the financial integrity of the City for the Auditor and Comptroller, consistent with his responsibilities under the existing City Charter, to perform the internal audit function on an independent basis working not only with the Mayor's Office, but also with the Audit Committee recently established by the City Council to provide independent oversight over financial matters (the Auditor and Comptroller or his designee with responsibility over the internal audit function is referred to herein as the "Internal Auditor");

WHEREAS this Statement of Operating Principles shall apply during the interim period prior to revision of the City Charter (the "Interim Period");

Accordingly, the Mayor hereby sets forth the following operating principles:

1. The Internal Auditor, in the exercise of his internal audit function, is directed periodically and more frequently as necessary to communicate directly to and consult with the Audit Committee and to be responsive to its requests for information consistent with the Audit Committee's oversight responsibilities with respect to the internal audit function. Such communication shall take place at the initiative of the Internal Auditor or of the Audit Committee. The Internal Auditor shall have the responsibility to inform the Audit Committee if he believes his independence is being compromised.
2. During the Interim Period, the Internal Auditor's internal audit function shall focus on financial reporting, completion of the City's CAFRs for fiscal years 2003 through 2007, and the City's internal controls over financial reporting.
3. The Internal Auditor shall prepare an Annual Audit Work Plan consistent with the foregoing paragraph as part of the internal audit function after consultation with and taking into account the recommendations of the Mayor and the Audit Committee, including prioritization of the workload according to available resources and budget. The Internal Auditor shall resolve any differences through the exercise of his independent professional judgment.
4. The Internal Auditor may consult as appropriate with the City Council or its designees, such as the Independent Budget Analyst, or the City Attorney.

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5. The Mayor shall direct the Auditor and Comptroller to select as the Internal Auditor, with the participation of the Audit Committee, a person with professional qualifications as an internal auditor.

6. To the extent that the Internal Auditor is not the Auditor and Comptroller as described in Section 39 of the City Charter, the Internal Auditor may be dismissed by the Auditor and Comptroller, subject only to a right to appeal to the Audit Committee to overturn the dismissal decision.

7. The Auditor and Comptroller, in consultation with the Audit Committee, shall evaluate the performance of the Internal Auditor and shall consult with the Audit Committee with respect to the budget and compensation of the Internal Auditor.

APPROVED: JERRY SANDERS, Mayor

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ORDINANCE NUMBER O-\_\_\_\_\_ (NEW SERIES)

DATE OF FINAL PASSAGE \_\_\_\_\_

AN ORDINANCE AMENDING THE SAN DIEGO MUNICIPAL CODE BY AMENDING CHAPTER 2, ARTICLE 2, DIVISION 1, SECTION 22.0101.5, ENTITLED "PERMANENT RULES OF THE COUNCIL," BY AMENDING RULE 6.1 AND ADDING A NEW RULE 6.11.6; AMENDING CHAPTER 2, ARTICLE 2, BY ADDING NEW DIVISION 43, TITLED "AUDIT COMMITTEE", AND ADDING NEW SECTIONS 22.4301, 22.4302, 22.4303, 22.4304, AND 22.4305; AMENDING CHAPTER 2, ARTICLE 6, BY REPEALING DIVISION 17, TITLED "FINANCIAL REPORTING OVERSIGHT BOARD", AND BY REPEALING SECTIONS 26.1701, 26.1702, 26.1703, 26.1704, 26.1705 AND 26.1706 IN THEIR ENTIRETY; AMENDING CHAPTER 2, ARTICLE 2, DIVISION 41, TITLED "SECURITIES DISCLOSURE", BY AMENDING SECTIONS 22.4101, 22.4105, 22.4106, 22.4109, AND 22.4112; AMENDING CHAPTER 2, ARTICLE 2, DIVISION 3, TITLED "CITY ATTORNEY", BY AMENDING SECTION 22.0304; AMENDING CHAPTER 2, ARTICLE 2, DIVISION 7, TITLED "CITY AUDITOR AND COMPTROLLER", BY AMENDING SECTION 22.0708; ALL RELATED TO A NEW AUDIT COMMITTEE.

WHEREAS, on December 6, 2006 at a special meeting, the City Council established an Interim Audit Committee and directed the City Attorney to draft an ordinance to amend the Permanent Rules of the Council to establish an Audit Committee as a standing committee of the City Council, and directed that the Audit Committee prepare a written Charter; and further directed that the Financial Reporting Oversight Board be eliminated as being redundant to the Audit Committee; and

WHEREAS, on January 9, 2007, the City Council adopted the "San Diego City Council Temporary Rules Establishing the Audit Committee" until such time that the Permanent Rules of the City Council are amended and directed that the Audit Committee develop and recommend a Charter containing the duties and responsibilities of the Audit Committee; and

WHEREAS, on February 26, 2007, the Audit Committee proposed amendments to the

San Diego City Council Temporary Rules Establishing the Audit Committee, discussed and adopted an "Audit Committee Charter", and discussed and received a "Statement of Operating Principles" issued by the Mayor, a copy of which is attached for references purposes only as Exhibit A, and directed that the Audit Committee Charter be added to the Municipal Code; and

WHEREAS, under Charter section 280(a)(1) this ordinance is not subject to veto by the Mayor because this matter is exclusively within the purview of the City Council and not affecting the administrative service of the City under the control of the Mayor; NOW, THEREFORE,

BE IT ORDAINED, by the Council of the City of San Diego, as follows:

Section 1. That Chapter 2, Article 2, Division 1, of the San Diego Municipal Code is hereby amended by amending Section 22.0101.5, Rule 6.1, and by adding Rule 6.11.6, titled "Audit Committee," as follows:

**§ 22.0101.5 - Permanent Rules of the Council**

Rule 1 through Rule 5.2. [No change in text.]

Rule 6: STANDING AND SPECIAL COMMITTEES

**6.1 Creation of Standing Committees (former Rule 10)**

The Council hereby creates six standing committees as follows:

(a) through (e) [No change to text.]

(f) Audit Committee

Rule 6.2 through Rule 6.11.5 [No change to text.]

Rule 6.11.6 Audit Committee

- (a) The Audit Committee shall be composed of three voting Council members. Whenever possible, on a going forward basis, the terms of Audit Committee members should be arranged to ensure that

there is always at least one experienced member of the Committee.

- (b) The Committee shall provide independent, legislative oversight for audit work performed by and for the City. This oversight shall extend to the City's internal controls over financial reporting; the City's financial disclosures; internal financial audits; and the selection, with appropriate consultation with the Mayor, and monitoring of independent audit firms.
- (c) The Committee may hold hearings on matters referred to it and as it deems necessary for the performance of its functions.
- (d) The Committee shall also have the responsibility to develop a permanent Audit Committee Charter, review the Charter annually and recommend any proposed changes to the Charter to the City Council.

Rule 6.12 through Rule 11 [No change to text.]

Section 2. That Chapter 2, Article 2, of the San Diego Municipal Code is hereby amended by adding a new Division 43, titled "Audit Committee"; and by adding new sections 22.4301, 22.4302, 22.4303, 22.4304 and 22.4305, to read as follows:

**Article 2: Administrative Code**

**Division 43: Audit Committee**

**§ 22.4301 Purpose and Intent**

The purpose of the Audit Committee of the City Council of the City of San Diego is to:

- (a) Provide independent, legislative oversight of the City's accounting and financial reporting processes, financial internal controls,

internal financial audit function and audits of the City's financial statements;

- (b) Assist the Council in performing its legislative oversight function in those areas;
- (c) Review the financial reports and other financial information provided by the City, the City's disclosure controls and procedures, and its internal financial controls;
- (d) Consider the reports of and interact with the City's internal auditor in connection with the internal auditor's performance of an independent internal financial audit function;
- (e) Assume direct responsibility, with appropriate consultation with the Mayor or his designee, for the appointment, compensation, retention and where appropriate, replacement of the outside auditor to the City in preparing or issuing an audit report or related work;
- (f) Oversee the work and independence of the outside auditor, approve all auditing services and permitted non-audit services provided by the outside auditor, and resolve any disagreements between the Mayor and the outside auditor regarding financial reporting; and
- (g) Carry out the specific responsibilities set forth below in furtherance of this stated purpose.

**§ 22.4302 Committee Membership and Procedures**

- (a) Committee members shall be appointed in accordance with the Council Permanent Rules.

- (b) The Committee shall be comprised of three voting Council members. The terms of the members, whenever possible, shall be arranged to ensure that there is always at least one experienced member of the Committee.
- (c) The Committee shall meet periodically as it determines. It shall conduct its meetings in accordance with this Charter, the procedures of the Council, the requirements of California law and such other lawful procedures as the Committee may adopt. The Committee may, consistent with California law, meet in closed session when determined necessary, including for personnel matters.

**§ 22.4303 Resources**

- (a) The Committee shall be advised, from time-to-time, by an ad hoc advisory committee, created and established only for the purpose of advising on questions with clearly defined objectives, and shall be temporary in nature, and shall be dissolved upon the completion of the objectives for which the advisory committee was created. The advisory committee shall initially consist of at least three members, one member who shall be appointed by the Mayor and two members who shall be appointed by the Committee. Any additional members shall be appointed jointly by the Mayor and the Committee. The advisory committee members shall be citizens selected for their accounting or audit expertise or financial management expertise. Each of the members shall serve without compensation.
- (b) The Committee may, from time to time, retain professional consultants as it considers necessary to carry out its functions. The Committee shall be provided with appropriate funding, as determined by the Committee and



approved by the City Council, for payment of compensation to any such consultants and advisors and any outside auditor, as well as for any ordinary administrative expenses of the Committee that it determines are necessary or appropriate in carrying out its responsibilities.

**§ 22.4304 Complaint Procedures**

Any issue of significant financial misconduct shall be brought to the attention of the Committee for its consideration. In this connection, the Committee shall establish procedures for:

- (a) the receipt, retention and treatment of complaints received by the City regarding internal financial controls or financial auditing matters and
- (b) the confidential, anonymous submission by employees of the City of concerns regarding questionable financial or auditing matters.

**§ 22.4305 Key Responsibilities**

- (a) The Committee's role is one of oversight, and it is recognized that the Mayor is responsible for preparing the City's financial statements and that the outside auditor, which is ultimately accountable to the Committee, is responsible for auditing those financial statements.
- (b) The following functions shall be the common recurring activities of the Committee in carrying out its oversight role. The functions are set forth as a guide and may be varied and supplemented from time to time as appropriate under the circumstances.
  - (1) Appointment of Outside Auditor. The Committee shall have direct responsibility, with appropriate consultation with the Mayor, for

the appointment, compensation, retention and where appropriate, replacement of any registered public accounting firm selected to be the City's outside auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the City. The Committee shall provide oversight of the work of the outside auditor and, consistent with the requirements of the City Charter and California law, may meet with the outside auditor outside the presence of the Mayor to discuss the audit and the City's fiscal affairs.

- (2) Disclosure Controls and Procedures. The Committee shall review periodically with the Disclosure Practices Working Group and the Mayor the City's disclosure controls and procedures, and shall review and evaluate the annual report on the City's disclosure controls and procedures made by the Disclosure Practices Working Group and provide to the Disclosure Practices Working Group, the Mayor, and the City Council any comments or recommendations it may have.
- (3) Internal Controls. The Committee shall discuss periodically with the Mayor and the outside auditor the quality and adequacy of the City's internal controls over financial reporting and internal financial auditing procedures, including any significant deficiencies or material weaknesses in the design or operation of those controls which could adversely affect the City's ability to record, process, summarize or report financial data and any fraud,

whether or not material, that involves the Mayor or other employees who have a significant role in the City's financial internal controls, and discuss with the outside auditor how the City's financial systems and controls compare with practices in the municipal sector.

- (4) Internal Auditing. The Committee shall make recommendations, along with the City Council, the Mayor, and the City Attorney, for matters to be included in the Annual Audit Work Plan developed by the internal auditor as part of the internal audit function, which shall focus on financial reporting, completion of the City's Comprehensive Annual Financial Reports for fiscal years 2004 through 2007, and the City's internal controls over financial reporting, and which shall recognize the need to prioritize workload according to available resources, budget and critical needs. The Committee shall review and comment on the Annual Audit Work Plan and monitor its progress on at least a quarterly basis. The Committee shall review the results of internal financial audits and monitor the follow-up on recommendations. Consistent with the requirements of the City Charter and California law, the Committee may meet with the internal auditor outside the presence of the Mayor to discuss the internal financial audit.
- (5) Accounting Policies. The Committee shall review periodically with the Mayor and the outside auditor the quality, as well as acceptability, of the City's accounting policies, and discuss with

the outside auditor how the City's accounting policies compare with those in the municipal sector and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Mayor, the ramifications of use of such alternative disclosures and treatments and the treatment preferred by the outside auditor.

- (6) Pre-approval of All Audit Services and Permitted Non-Audit Services. The Committee shall approve, or establish procedures for representatives of the Committee to approve, in advance, all audit services and all permitted non-audit services to be provided to the City by the outside auditor in order to ensure the outside auditor's independence.
- (7) Annual Audit. In connection with the annual audit of the City's financial statements, the Committee shall:
  - (A) Request from the outside auditor a formal written statement delineating all relationships between the outside auditor and the City consistent with Independence Standards Board Standard No. 1 and any other applicable auditing requirements, discuss with the outside auditor any such disclosed relationships and their impact on the outside auditor's objectivity and independence, and take appropriate action to oversee the independence of the outside auditor.

- (B) After appropriate consultation with the Mayor, recommend to the City Council the selection and the terms of the engagement of the outside auditor.
  - (C) Review with the Mayor and the outside auditor the audited financial statements to be included in the City's Comprehensive Annual Financial Report, and provide to the Mayor any comments or recommendations it may have, and review and consider with the outside auditor the matters required to be discussed by Statement on Auditing Standards No. 61.
  - (D) Perform the procedures set forth below in "Financial Reporting Procedures" with respect to the annual financial statements to be reported.
  - (E) Review with the Mayor and the outside auditor the City's critical accounting policies and practices.
  - (F) Recommend to the Council whether, based on the reviews and discussions referred to above, the annual financial statements should be issued by the City.
- (8) Continuing Reporting. In connection with the City's preparation of its continuing reporting of financial information, the Committee shall:
- (A) Review the City's financial information to be included in the City's continuing reports, and discuss them with the Mayor and, to the extent appropriate, the outside auditor.

- (B) Perform the procedures set forth below in "Financial Reporting Procedures" with respect to the financial information to be included in the continuing reports.
- (9) Financial Reporting Procedures. In connection with the Committee's review of each reporting of the City's annual or continuing financial information, the Committee shall:
- (A) Discuss with the outside auditor, to the extent appropriate, whether all material correcting adjustments identified by the outside auditor in accordance with generally accepted accounting principles are reflected in the City's financial statements.
  - (B) Review with the outside auditor all material communications between the outside auditor and the Mayor, such as any letter or schedule of unadjusted differences.
  - (C) Review with the Mayor and the outside auditor any material financial or other arrangements of the City which do not appear on the City's financial statements and any transactions or courses of dealing with third parties that are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, and which arrangements or transactions are relevant to an understanding of the City's financial statements.

- (D) Resolve any disagreements between the Mayor and the outside auditor regarding financial reporting.
- (10) Securities Law Compliance. The Committee shall review and evaluate the City's compliance with its obligations under federal and state securities laws with respect to securities issued by the City and by the "related entities," as defined in San Diego Municipal Code section 22.1702, and provide to the Disclosure Practices Working Group, the Mayor, and the City Council any comments or recommendations it may have.
- (11) Coordination and Reporting. The Committee shall work to assure maximum coordination between the work of the internal auditor, the Council as legislative body and the outside auditor. The Audit Committee shall report to the City Council at least quarterly, and more frequently as needed, including reporting out of closed session, to assist the City Council in carrying out their legislative oversight duties.
- (12) Charter. The Committee shall review and reassess at least annually the adequacy of this Charter and recommend any proposed changes to the Council for approval, including any changes that may be appropriate or desirable as a result of any revision of the City Charter.

Section 3. That Chapter 2, Article 6, of the San Diego Municipal Code is hereby amended by repealing Division 17, titled "Financial Reporting Oversight Board" and by repealing sections 26.1701, 26.1702, 26.1703, 26.1704, 26.1705, and 26.1706 in their entirety.

Section 4. That Chapter 2, Article 2, Division 41, of the San Diego Municipal Code titled "Securities Disclosure", is hereby amended by amending Sections 22.4101 (b)(6), 22.4105 (b), 22.4105 (c), 22.4106 (a)(3), 22.4109 (b), and 22.4112 by replacing the words "Financial Reporting Oversight Board" with the words "Audit Committee".

Section 5. That Chapter 2, Article 2, Division 3, of the San Diego Municipal Code, titled "City Attorney", is hereby amended by amending the title of Section 22.0304 and Sections 22.0304 (a) and 22.0304 (b) by replacing the words "Financial Reporting Oversight Board" with the words "Audit Committee".

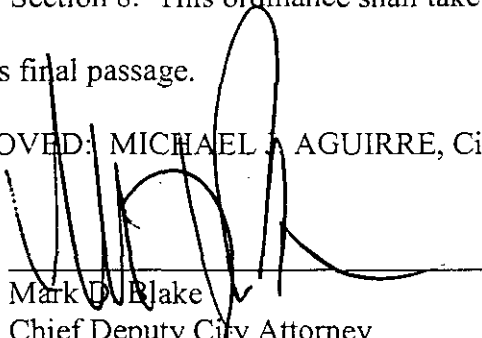
Section 6. That Chapter 2, Article 2, Division 7, titled "City Auditor and Comptroller", is hereby amended by amending Sections 22.0708 (b) and 22.0708 (b)(5) by replacing the words "Financial Reporting Oversight Board" with the words "Audit Committee".

Section 7. That a full reading of this ordinance is dispensed with prior to passage, since a written copy was made available to the City Council and the public prior to the day of its passage.

Section 8. This ordinance shall take effect and be in force on the thirtieth day from and after its final passage.

APPROVED: MICHAEL A. AGUIRRE, City Attorney

By

  
Mark D. Blake  
Chief Deputy City Attorney

MDB:jdf  
03/28/2007  
Or.Dept:Audit Committee  
O-2007-122



ORDINANCE NUMBER O-\_\_\_\_\_ (NEW SERIES)

DATE OF FINAL PASSAGE \_\_\_\_\_

AN ORDINANCE AMENDING THE SAN DIEGO MUNICIPAL CODE BY AMENDING CHAPTER 2, ARTICLE 2, DIVISION 43, TITLED "AUDIT COMMITTEE", AND ADDING NEW SECTION 22.4306; RELATED TO THE OPERATING PRINCIPLES OF THE AUDIT COMMITTEE.

WHEREAS, the City Charter provides for an Auditor and Comptroller to perform those functions related to the City's fiscal affairs specified in the City Charter; and

WHEREAS, the Auditor and Comptroller is to perform those functions under the direction of the Mayor except as otherwise specified in the existing City Charter; and

WHEREAS, the Mayor believes that it is important for the financial integrity of the City for the Auditor and Comptroller, consistent with his responsibilities under the existing City Charter, to perform the internal audit function on an independent basis working not only with the Mayor's Office, but also with the Audit Committee recently established by the City Council to *provide independent oversight over financial matters (the Auditor and Comptroller or his designee with responsibility over the internal audit function is referred to herein as the "Auditor")*; and

WHEREAS, this Statement of Operating Principles shall apply during the interim period prior to revision of the City Charter (the "Interim Period"); and

WHEREAS, on February 26, 2007, the Audit Committee discussed and adopted an a "Statement of Operating Principles", and directed that the Statement of Operating Procedures be added to the Municipal Code; NOW, THEREFORE,

BE IT ORDAINED, by the Council of the City of San Diego, as follows:

Section 1. That Chapter 2, Article 2, Division 43, of the San Diego Municipal Code is

hereby amended by adding Section 22.4306, titled as follows:

**§ 22.4306      Interim Statement of Operating Principles**

The Mayor hereby sets forth the following operating principles:

- (a)      The Auditor, in the exercise of his internal audit function, is directed periodically and more frequently as necessary to communicate directly to and consult with the Audit Committee and to be responsive to its requests for information consistent with the Audit Committee's oversight responsibilities with respect to the internal audit function. Such communication shall take place at the initiative of the Auditor or of the Audit Committee. The Auditor shall have the responsibility to inform the Audit Committee if he believes his independence is being compromised.
- (b)      During the Interim Period, the Auditor's internal audit function shall focus on financial reporting, completion of the City's CAFRs for fiscal years 2003 through 2007, and the City's internal controls over financial reporting.
- (c)      The Auditor shall prepare an Annual Audit Work Plan consistent with the foregoing paragraph as part of the internal audit function after consultation with and taking into account the recommendations of the Mayor and the Audit Committee, including prioritization of the workload according to available resources and budget. The Auditor shall resolve any differences through the exercise of his independent professional judgment.

- (d) The Auditor may consult as appropriate with the City Council or its designees, such as the Independent Budget Analyst, or the City Attorney.
- (e) The Mayor shall select as the Auditor, with the participation of the Audit Committee, a person with professional qualifications as an internal auditor.
- (f) To the extent that the Auditor is not the Auditor and Comptroller as described in Section 39 of the City Charter, the Auditor may be dismissed by the Mayor subject only to a right to appeal to the Audit Committee to overturn the Mayor's decision.
- (g) The Mayor, in consultation with the Audit Committee, shall evaluate the performance of the Auditor and shall consult with the Audit Committee with respect to the budget and compensation of the Auditor.

Section 2. That a full reading of this ordinance is dispensed with prior to passage, since a written copy was made available to the City Council and the public prior to the day of its passage.

Section 3. This ordinance shall take effect and be in force on the thirtieth day from and after its final passage.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By *Mark D. Blake*  
for Mark D. Blake  
Chief Deputy City Attorney

MDB:jdf  
04/04/06  
Or.Dept:Audit Committee  
O-2007-126

I hereby certify that the foregoing Ordinance was passed by the Council of the City of San Diego, at this meeting of \_\_\_\_\_.

ELIZABETH S. MALAND  
City Clerk

By \_\_\_\_\_  
Deputy City Clerk

Approved: \_\_\_\_\_  
(date)

\_\_\_\_\_  
JERRY SANDERS, Mayor

Vetoed: \_\_\_\_\_  
(date)

\_\_\_\_\_  
JERRY SANDERS, Mayor

ORDINANCE NUMBER O- \_\_\_\_\_ (NEW SERIES)

DATE OF FINAL PASSAGE \_\_\_\_\_

AN ORDINANCE AMENDING THE SAN DIEGO MUNICIPAL CODE  
BY AMENDING CHAPTER 2, ARTICLE 2, DIVISION 1, SECTION  
22.0101.5, ENTITLED "PERMANENT RULES OF THE COUNCIL,"  
BY AMENDING RULE 6.1 AND ADDING A NEW RULE 6.11.6, ALL  
RELATED TO A NEW AUDIT COMMITTEE.

WHEREAS, on December 6, 2006, the City Council directed the City Attorney to draft  
an ordinance to amend the Permanent Rules of the Council to establish an Audit Committee as a  
standing committee of the City Council; and

WHEREAS, under Charter section 280(a)(1) this ordinance is not subject to veto by the  
Mayor because this matter is exclusively within the purview of the City Council and not  
affecting the administrative service of the City under the control of the Mayor; NOW,  
THEREFORE,

BE IT ORDAINED, by the Council of the City of San Diego, as follows:

Section 1. That Chapter 2, Article 2, Division 1, of the San Diego Municipal Code is

hereby amended by amending Section 22.0101.5, Rule 6.1, and by adding Rule 6.11.6, entitled  
"Audit Committee," as follows:

**§ 22.0101.5 - Permanent Rules of the Council**

Rule 1 through Rule 5.2. [No change in text.]

**Rule 6: STANDING AND SPECIAL COMMITTEES**

**6.1 Creation of Standing Committees (former Rule 10)**

The Council hereby creates six standing committees as follows:

(a) through (e) [No change to text.]

## (f) Audit Committee

Rule 6.2 through Rule 6.11.5 [No change to text.]

## Rule 6.11.6 Audit Committee

- (a) The Audit Committee shall be composed of three voting Council members. Whenever possible, on a going forward basis, the terms of Audit Committee members should be arranged to ensure that there is always at least one experienced member of the Committee.
- (b) The Committee shall be advised from time-to-time by an ad hoc advisory committee, created and established only for the purpose of advising on questions with clearly defined objectives, and shall be temporary in nature, and shall be dissolved upon the completion of the objectives for which the advisory committee was created. The advisory committee shall consist of three members, one member who shall be appointed by the Mayor, and two members who shall be appointed by the Committee. The advisory committee members shall be citizens selected for their accounting or audit expertise or financial management expertise. Each of the members shall serve without compensation.
- (c) The Committee shall provide independent, legislative oversight for audit work performed by and for the City. This oversight shall extend to the quality of the City's internal controls and practices; the accuracy of the City's financial disclosures; the conduct of internal financial audits; and the selection and monitoring of independent audit firms.
- (d) The Committee may hold hearings on matters referred to it and as it deems necessary for the performance of its functions.
- (e) The Committee shall also have the responsibility to develop a permanent

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Audit Committee Charter, review the Charter annually and recommend any proposed changes to the Charter to the governing body.

Rule 6.12 through Rule 11 [No change to text.]

Section 2. That a full reading of this ordinance is dispensed with prior to its final passage, a written copy having been available to the City Council and the public prior to the day of its passage.

Section 3. That this ordinance shall take effect and be in force on the thirtieth day from and after its final passage.

APPROVED: MICHAEL J. AGUIRRE, *City Attorney*

By: \_\_\_\_\_

Chief Deputy City Attorney

RESOLUTION NUMBER R- 302279DATE OF FINAL PASSAGE JAN 09 2007A RESOLUTION OF THE COUNCIL OF THE CITY OF  
SAN DIEGO ADOPTING TEMPORARY RULES TO  
ESTABLISH THE AUDIT COMMITTEE

WHEREAS, Rule 9 of the Permanent Rules of the Council permits temporary rules to be established, that have the effect, for the time being, of a standing rule; and

WHEREAS, the Council desires to temporarily amend the Permanent Rules of the Council by amending Rule 6.1 and adding Rule 6.11.6 to add a new standing committee entitled "Audit Committee" to allow the Audit Committee to begin its work promptly; and

WHEREAS, under Charter section 280(a)(1) this resolution is not subject to veto by the Mayor because this matter is exclusively within the purview of the City Council and not affecting the administrative service of the City under the control of the Mayor; NOW, THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego, that the following temporary rules to be known as "San Diego City Council Temporary Rules Establishing the Audit Committee" is hereby adopted.

**Rule 6.1 Creation of Standing Committees (former Rule 10) [new text underlined]**

The Council hereby creates six standing committees as follows:

- (a) Committee on Rules, Open Government and Intergovernmental Relations (herein referred to as the "Rules Committee")
- (b) Committee on Land Use and Housing



- (c) Committee on Natural Resources and Culture
- (d) Committee on Public Safety and Neighborhood Services
- (e) Committee on Budget and Finance
- (f) Audit Committee

**Rule 6.11.6 Audit Committee** [all new text]

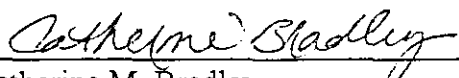
- (a) The Audit Committee shall be composed of three voting Councilmembers.
- (b) The Committee shall have legislative oversight responsibilities for the City's audit work.
- (c) The Committee shall also have the responsibility to hold hearings on matters referred to it and to act upon them as soon as practicable.

BE IT FURTHER RESOLVED, that the above temporary rules shall be effective from passage and continuing until such time that the Permanent Rules of the City Council are amended to incorporate the subject matter addressed in the temporary rules.

BE IT FURTHER RESOLVED, that the Audit Committee shall develop and recommend a Charter containing the duties and responsibilities of the Committee for further discussion and approval by the City Council within 90 days.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By

  
Catherine M. Bradley  
Chief Deputy City Attorney

CMB:jab  
12/21/2006  
01/05/2007COR.COPY  
Or.Dept:Council-Peters  
R-2007-664

R-302279

ORDINANCE NUMBER O-\_\_\_\_\_ (NEW SERIES)

DATE OF FINAL PASSAGE \_\_\_\_\_

AN ORDINANCE AMENDING THE SAN DIEGO MUNICIPAL  
CODE BY AMENDING CHAPTER 2, ARTICLE 2, DIVISION 43,  
TITLED "AUDIT COMMITTEE", AND ADDING NEW  
SECTION 22.4306; RELATED TO THE OPERATING  
PRINCIPLES OF THE AUDIT COMMITTEE.

WHEREAS, the City Charter provides for an Auditor and Comptroller to perform those  
functions related to the City's fiscal affairs specified in the City Charter; and

WHEREAS, the Auditor and Comptroller is to perform those functions under the  
direction of the Mayor except as otherwise specified in the existing City Charter; and

WHEREAS, the Mayor believes that it is important for the financial integrity of the City  
for the Auditor and Comptroller, consistent with his responsibilities under the existing City  
Charter, to perform the internal audit function on an independent basis working not only with the  
Mayor's Office, but also with the Audit Committee recently established by the City Council to  
provide independent oversight over financial matters (the Auditor and Comptroller or his  
designee with responsibility over the internal audit function is referred to herein as the  
"Auditor"); and

WHEREAS, this Statement of Operating Principles shall apply during the interim period  
prior to revision of the City Charter (the "Interim Period"); and

WHEREAS, on February 26, 2007, the Audit Committee discussed and adopted an a  
"Statement of Operating Principles", and directed that the Statement of Operating Procedures be  
added to the Municipal Code; NOW, THEREFORE,

BE IT ORDAINED, by the Council of the City of San Diego, as follows:

Section 1. That Chapter 2, Article 2, Division 43, of the San Diego Municipal Code is

hereby amended by adding Section 22.4306, titled as follows:

§ 22.4306      **Interim Statement of Operating Principles**

The Mayor hereby sets forth the following operating principles:

- (a) The Auditor, in the exercise of his internal audit function, is directed periodically and more frequently as necessary to communicate directly to and consult with the Audit Committee and to be responsive to its requests for information consistent with the Audit Committee's oversight responsibilities with respect to the internal audit function. Such communication shall take place at the initiative of the Auditor or of the Audit Committee. The Auditor shall have the responsibility to inform the Audit Committee if he believes his independence is being compromised.
- (b) During the Interim Period, the Auditor's internal audit function shall focus on financial reporting, completion of the City's CAFRs for fiscal years 2003 through 2007, and the City's internal controls over financial reporting.
- (c) The Auditor shall prepare an Annual Audit Work Plan consistent with the foregoing paragraph as part of the internal audit function after consultation with and taking into account the recommendations of the Mayor and the Audit Committee, including prioritization of the workload according to available resources and budget. The Auditor shall resolve any differences through the exercise of his independent professional judgment.

- (d) The Auditor may consult as appropriate with the City Council or its designees, such as the Independent Budget Analyst, or the City Attorney.
- (e) The Mayor shall select as the Auditor, with the participation of the Audit Committee, a person with professional qualifications as an internal auditor.
- (f) To the extent that the Auditor is not the Auditor and Comptroller as described in Section 39 of the City Charter, the Auditor may be dismissed by the Mayor subject only to a right to appeal to the Audit Committee to overturn the Mayor's decision.
- (g) The Mayor, in consultation with the Audit Committee, shall evaluate the performance of the Auditor and shall consult with the Audit Committee with respect to the budget and compensation of the Auditor.

Section 2. That a full reading of this ordinance is dispensed with prior to passage, since a written copy was made available to the City Council and the public prior to the day of its passage.

Section 3. This ordinance shall take effect and be in force on the thirtieth day from and after its final passage.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By

\_\_\_\_\_  
Mark D. Blake  
Chief Deputy City Attorney

MDB:jdf

04/04/06

Or.Dept:Audit Committee

O-2007-126

I hereby certify that the foregoing Ordinance was passed by the Council of the City of San Diego, at this meeting of \_\_\_\_\_.

ELIZABETH S. MALAND  
City Clerk

By \_\_\_\_\_  
Deputy City Clerk

Approved: \_\_\_\_\_  
(date)

\_\_\_\_\_  
JERRY SANDERS, Mayor

Vetoed: \_\_\_\_\_  
(date)

\_\_\_\_\_  
JERRY SANDERS, Mayor